NEW JERSEY POLICY PERSPECTIVE

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Stop the Sunset: Corporate Tax Cut Would Benefit the Biggest and Most Profitable Businesses

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With corporate profits at record-breaking levels and tax evasion on the rise, New Jersey lawmakers are poised to give the biggest and most profitable businesses operating in the state a multi-million dollar tax break at the end of 2023. A proposal to eliminate the Corporate Business Tax surcharge will cost New Jersey at least $664 million in annual revenue, threatening the state's ability to sustainably fund programs and infrastructure that families, communities, and businesses rely on.[1] This change would only benefit a select few highly profitable corporations, providing an average tax cut of $5 million to companies with more than $100 million in annual profits.

Key Findings

- Eliminating the Corporate Business Tax (CBT) surcharge would cost the state at least $664 million in annual revenue.
- Corporations with more than $100 million in annual profit would receive a $5 million tax cut, on average.
- Only 2 percent of businesses operating in New Jersey pay the surcharge, including multi-national corporations not headquartered in the state.
- From 2009 to 2021, corporate business tax collections have increased by 212 percent, showing that businesses are thriving even with the surcharge in place.

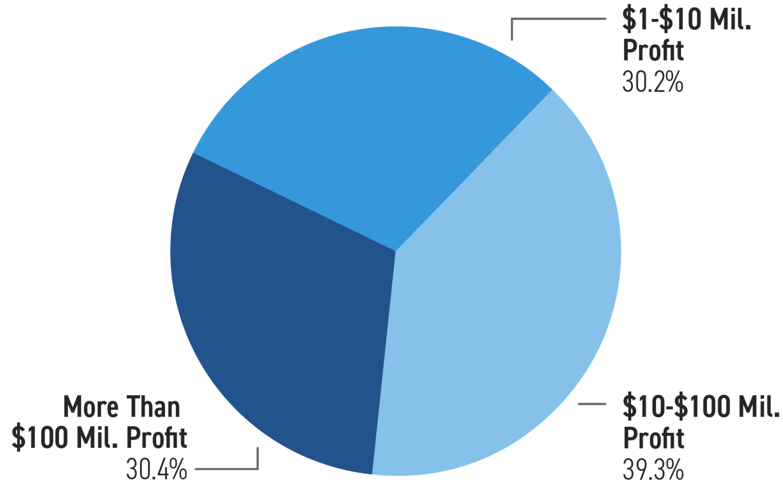
The Corporate Business Tax Surcharge is Targeted to Corporations That Can Afford It

The Corporate Business Tax (CBT) is New Jersey's third largest source of revenue, supporting vital investments — like transportation infrastructure, open space, pre-K-12 schools, and so much more — that make the state an attractive place to raise a family or start a business. In 2018, state lawmakers amended the corporate tax code by adding a surcharge on profits over $1 million.[2] This targeted change helped the state meet its longstanding obligations, like ramping up school funding and making full pension payments, and generated sustainable funding for safety net programs and public services at the height of the pandemic.[3]

Only the wealthiest corporations are required to pay the 2.5 percent tax on every dollar of net profit above $1 million, including multi-national businesses like Amazon, Walmart, and Bank of America that do business in New Jersey but are not headquartered here. The vast majority of New Jersey businesses, 98 percent, do not pay the surcharge at all because their annual profits fall below the $1 million profit threshold. In fact, just over 2,500 corporations pay the surcharge, according to the most recent state data.[4] By targeting mega-corporations that make millions, if not billions, in profits every year, the surcharge is a sustainable revenue stream paid by the businesses that can afford it, sparing "mom-and-pop" businesses across the state.

Corporations With More Than $10 Million in Profits Would Receive 70 Percent of Tax Cut

Share of tax cut benefit, by annual profit.



Source: New Jersey Office of Revenue and Economic Analysis.

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Allowing the CBT surcharge to sunset at a time of unprecedented corporate profit margins would come at a significant cost while primarily benefiting a select few, ultra-profitable businesses. Roughly 70 percent of the corporate tax cut would go to businesses with more than $10 million in annual profits. Corporations with more than $100 million in profits would receive the largest tax cut, averaging $4,952,000.

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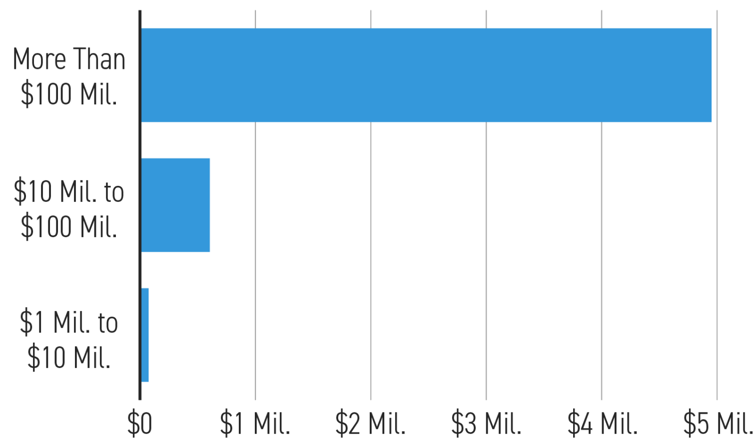
Most Profitable Corporations Would Receive the Largest Tax Cut

Average corporate tax cut per business, by annual profit.



Source: New Jersey Office of Revenue and Economic Analysis.

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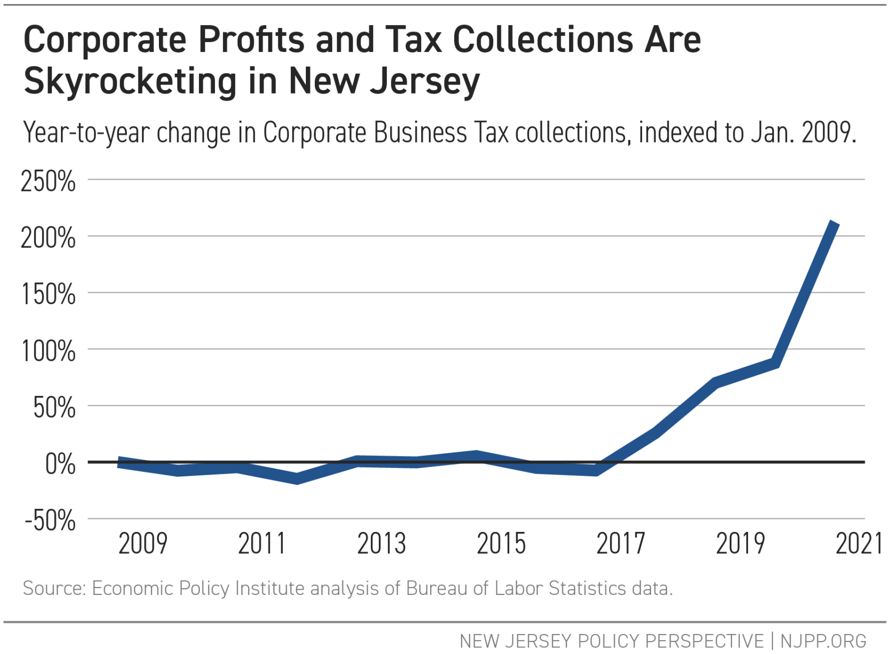
Corporations Are Making Record Profits While Paying Less in Taxes

New Jersey's strong CBT revenue collections in the last few years are a clear indicator that corporations are thriving, and the surcharge has neither hurt their bottom line nor driven them out of the state — an exaggerated talking point favored by business lobbyists to lower their tax obligations. From 2009 to 2021, corporate tax revenue in New Jersey increased by 212 percent, with the largest increase happening between 2020 and 2021, the latest year data is available.[5]

And while the most profitable corporations in New Jersey may be paying slightly more in state taxes, they continue to avoid paying what they truly owe by taking advantage of loopholes in the tax code and lobbying for tax cuts at the federal level. Wealthy corporations received a massive tax cut during the Trump administration, as the 2017 "Tax Cuts and Jobs Act" cut the U.S. federal corporate tax rate from 35 percent to 21 percent,[6] its lowest level since 1946.[7] The tax law also maintained blatant tax loopholes commonly used by wealthy corporations, allowing them to send their profits to tax havens like the Cayman Islands, completely disinvesting from the United States.



Tax avoidance is so common — and without consequence — that the amount of questionable tax dodging by corporations has nearly doubled in a decade's time from $164 billion in 2010 to $235 billion in 2020.[8] Until the Internal Revenue Service rebuilds its hollowed out workforce, especially employees with experience working with complex tax filings, wealthy corporations can and will continue to reap the benefits of a rigged tax code.[9] Recouping a portion of this foregone revenue at the state level is an entirely appropriate countermeasure to these blatant efforts to minimize business tax obligations.

Maintaining the Surcharge Benefits Working Families and the State's Finances

Revenue generated by the surcharge will be necessary to balance the state budget as pandemic-related federal assistance expires. Signed into law in March 2021, the American Rescue Plan (ARP) provided billions of dollars in flexible funding for states and local governments to begin reversing the harms done by the pandemic and promote an equitable economic recovery. New Jersey's state government received $6.2 billion in flexible aid, helping lawmakers maintain funding for public programs and services and expand financial assistance to renters, public hospitals, small businesses, and child care providers, among others in need.[10]

Once federal funds are gone, new and recently expanded programs and services will require funding from the state, and there will be less revenue to go around if the CBT surcharge is eliminated. The state's new universal newborn home visit program, for example, tapped $6 million in one-time fiscal recovery dollars to fund the first year. That casts doubt on whether the state will be able to sustainably fund the program in future years. Similar concerns arise around ARP allocations for programs that are normally supported by state funds, like grants for mental health services ($15 million) and capital improvement projects across the state ($50 million).

With rising costs, growing obligations, and looming end of federal relief aid, policymakers must provide a path of sustainability for the economic future of the Garden State. That starts with a commitment to long-lasting renewable revenue to meet the state's current and future needs and a permanent surcharge on wealthy corporations is a smart first step.

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[1] State of New Jersey, Department of the Treasury, Office of Revenue and Economic Analysis, *New Jersey Corporation Business Tax: Statistical Report for Return Years 2016–2018*, August 2022. https://www.state.nj.us/treasury/economics/documents/pdf/stats/CBT-100-SOI-TY2016-2018.pdf#page=22;Legislative Fiscal Note for A4721, September 2020. https://www.njleg.state.nj.us/bill-search/2020/A4721/bill-text?f=A5000&n=4721_E1

[2] Chapter 48. https://pub.njleg.state.nj.us/Bills/2018/PL18/48_.PDF

[3] Chapter 95. https://pub.njleg.state.nj.us/Bills/2020/PL20/95_.PDF

[4]State of New Jersey, Department of the Treasury, Office of Revenue and Economic Analysis, *New Jersey Corporation Business Tax: Statistical Report for Return Years 2016–2018*, August 2022. https://www.state.nj.us/treasury/economics/documents/pdf/stats/CBT-100-SOI-TY2016-2018.pdf#page=22

[5] U.S. Bureau of Economic Analysis and U.S. Census Bureau at Federal Reserve Bank of St. Louis Economic Research Division, Federal Reserve Economic Data, https://fred.stlouisfed.org (Last updated Dec. 22, 2022). Without comprehensive public data on corporate profits in New Jersey, CBT revenue collections can be used as a proxy given that the tax is paid as a percentage of profits made in the state.

[6] The Tax Cuts and Jobs Act (TCJA), Public Law 115–97.

[7] Tax Policy Center, Historical Corporate Income Marginal Tax Rates, Tax Years 1942-2022, February 2022. https://www.taxpolicycenter.org/statistics/marginal-corporate-tax-rates

[8] The Washington Post, *As IRS audits waned, big businesses racked up unapproved tax breaks*, July 2021. https://www.washingtonpost.com/business/2021/07/14/corporate-tax-break-irs/?itid=hp-more-top-stories

[9] ProPublica, *How the IRS was gutted*, December 2018. https://www.propublica.org/article/how-the-irs-was-gutted

[10] New Jersey Policy Perspective, *New Jersey Has Less than $1 Billion Left in American Rescue Plan Funds*, August 2022. https://www.njpp.org/publications/blog-category/new-jersey-has-less-than-1-billion-left-in-american-rescue-plan-funds/